

Message Text

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CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

PA-04 PRS-01 USIA-15 CIAE-00 COME-00 FRB-03 INR-11

NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 FEAE-00 SEC-03

AGR-20 PM-07 DODE-00 DRC-01 /199 W

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R 261440Z JUL 74

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 1156

INFO AMCONSUL BORDEAUX

AMCONSUL LYON

AMCONSUL MARSEILLE

AMCONSUL NICE

AMCONSUL STRASBOURG

UNCLAS SECTION 01 OF 03 PARIS 18177

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, EGEN, FR

SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 17046, JULY 12, 1974

1. 1975 BUDGET OUTLINE ANNOUNCED-

ON WEDNESDAY BEFORE THE COUNCIL OF MINISTERS
PRESIDENT GISCARD D'ESTAING SKETCHED A BROAD OUTLINE
OF THE EXPENDITURE SIDE OF THE 1975 BUDGET (THE
DEFINITIVE BUDGET WILL BE ANNOUNCED IN SEPTEMBER).
THE BUDGET WOULD BE AUSTERE. AN EXPENDITURE INCREASE
OF 13.8 PERCENT IN NOMINAL AND 4.9 PERCENT IN REAL
TERMS OVER 1974, WOULD AGAIN BE BALANCED BY INCREASES
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IN RECEIPTS. EARLIER FINANCE MINISTRY PROPOSALS SETTING

THE 1975 EXPENDITURE INCREASE AT 14.4 PERCENT RATHER THAN 13.8 PERCENT WERE REPORTEDLY OUT BACK BY MEANS OF ACROSS THE BOARD REDUCTION OF 0.75 PERCENT OF EACH PROPOSED AGENCY BUDGET, EXCEPT FOR EDUCATION (0.50 PERCENT).

BUDGET WOULD CONTINUE TO REFLECT ESTABLISHED PRIORITIES "WITHOUT SACRIFICING ESSENTIALS". PROGRAMS FOR THE ELDERLY, HOSPITALS, AND THE TELEPHONE SYSTEM WOULD GET ADDITIONAL RESOURCES, AND PAY FOR THE ARMED FORCES AND JUDGES WOULD BE INCREASED. PRESIDENT PRESSED HOME NEED FOR AUSTERITY IN GOVERNMENT ADMINISTRATION IN CURRENT SITUATION, CALLING ON MINISTERS TO SEARCH FOR WAYS TO ECONOMIZE HE ALSO ANNOUNCED IMPLEMENTATION OF PILOT PROGRAM OF TOTAL BUDGET CONTROL FOR SEVERAL MINISTRIES, TO BEGIN WITH 1976 BUDGET. UNDER THIS SYSTEM AN EXHAUSTIVE EXAMINATION AND JUSTIFICATION OF A MINISTRY'S ENTIRE BUDGET WOULD BE REQUIRED, RATHER THAN EXAMINATION ONLY OF PROPOSED CHANGES IN PROGRAMS AND EXPENDITURES.

2. COMPLAINTS MOUNT OVER CREDIT CEILINGS-

RECENT OUTCRIES SUGGEST THAT THE GOLF IS HAVING SOME SUCCESS IN ITS STATED GOAL OF TIGHTENING CREDIT CONTROLS (CHIEFLY THE CEILINGS PLACED ON THE EXPANSION OF OUTSTANDING BANK LOANS) TO THE POINT WHERE FIRMS ARE FORCED TO MODIFY THEIR ECONOMIC DECISIONS BECAUSE OF THEIR TIGHT FINANCIAL POSITION. ALTHOUGH THIS SYSTEM HAS BEEN IN PLACE WITH NOMINALLY INCREASING TIGHTNESS FOR OVER A YEAR, SEVERAL EFFECTS HAVE DELAYED ITS FULL IMPACT BEING FELT UNTIL NOW. FIRST, THE ECONOMIC BOOM IN 1973 AND TO A LESSER EXTENT THIS YEAR INCREASED FIRMS' OWN EARNINGS AND REDUCED THEIR NEEDS FOR OUTSIDE FINANCING. THE SECOND FACTOR HAS BEEN NON-ADHERENCE TO THE DECREED LIMITS, AS CERTAIN BANKS EXCEEDED THEIR CEILINGS BOTH BY DESIGN AND LATER BECAUSE OF THE CONFUSION ARISING FROM THE BANK STRIKE EARLIER THIS YEAR.

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THESE PROBLEMS HAVE BEEN RESOLVED, THE RESULT BEING AN INCREASINGLY EFFECTIVE INCIDENCE OF THE CREDIT RESTRICTIONS. RECENTLY BOTH THE PARIS CHAMBER OF COMMERCE AND THE ASSOCIATION OF SMALL AND MEDIUM SIZED FIRMS HAVE ADDED THEIR VOICES TO THE CHORUS OF BUSINESS COMPLAINT LED FOR A LONG TIME BY THE BANKS THEMSELVES. BOTH TERMED THE CREDIT RESTRAINTS "DRACONIAN" AND RAISED THE POSSIBILITY OF THEIR MEM-

BERS BEING TO REDUCE OUTPUT AND EMPLOYMENT.

THEY ALSO BOTH CRITICIZED THE RECENTLY ANNOUNCED TAX
SURCHARGE ON CORPORATIONS.

3. BANK OF FRANCE FINDS INTERNAL DEMAND SLOWING-

DEMAND PRESSURES EASED SUBSTANTIALLY IN JUNE,
ACCORDING TO THE BANK OF FRANCE MONTHLY BUSINESS
SURVEY. THREE FACTORS WERE SAID TO HAVE COMBINED
TO PRODUCE THIS RELAXATION (1) LARGE INVENTORIES

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R 261440Z JUL 74

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TO SECSTATE WASHDC 1157

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OF INDUSTRIAL MATERIALS, (2) CONTINUING FALL OF RAW
MATERIALS PRICES AND (3) THE INCREASING TIGHTNESS OF
FRENCH CREDIT RESTRICTIONS. FOREIGN DEMAND REMAINED
HEAVY, THE MAJOR STIMULATING FORCE.

OTHER SIGNS ALSO SHOWED AND EASING OF THE CURRENT FEVERISH

PACE OF THE FRENCH ECONOMY. ALTHOUGH
GROWTH CONTINUED TO BE LIMITED BY LACK OF CAPACITY,
DELIVERY TIMES HAD BEEN REDUCED, SUPPLY PROBLEMS HAD
EASED IN MOST SECTORS, AND PRICES OF INDUSTRIAL GOODS HAD
STOPPED RISING SO RAPIDLY.

FIRMS NEVERTHELESS MAINTAINED AN OPTIMISTIC
OUTLOOK FOR INCREASED PRODUCTION IN SHORT TERM.
UNFILLED ORDERS, STILL RELATIVELY HIGH, WOULD ASSURE
PRODUCTION AT LEAST THROUGH SEPTEMBER, WHEN PRODUC-
TION WOULD RESUME NORMAL LEVELS AFTER THE JULY-AUGUST
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VACATION SHUTDOWN.

IN THE LONGER TERM THE OUTLOOK WAS MIXED, AND
OFTEN DEPENDED ON WHETHER AN INDUSTRY'S SALES WERE LINKED TO
HOUSEHOLD CONSUMPTION. IF THEY WERE, THE
APPARENT SLUMP IN THIS VARIABLE MADE THE OUTLOOK FOR
THAT INDUSTRY LESS FAVORABLE.

4. UNEMPLOYMENT INCREASES SLIGHTLY IN JUNE -

SEASONALLY ADJUSTED REGISTERED UNEMPLOYMENT
INCREASED MARGINALLY IN JUNE FROM 420,800 TO 429,100.
THIS MOVEMENT REMAINS WITHIN THE NARROW RANGE IN WHICH
UNEMPLOYMENT HAS OSCILLATED FOR ALMOST A YEAR. UNFILLED JOB
OFFERS STAYED EFFECTIVELY THE SAME, DECLINING
FROM 251,400 TO 251,300 IN JUNE. THIS LEVEL REMAINS
RELATIVELY HIGH, APPROACHING THE HISTORIC HIGH OF
279,900 OBSERVED LAST OCTOBER.

5. INDUSTRIAL PRODUCTION INCREASES IN MAY -

INDUSTRIAL PRODUCTION UNDER THE REVISED INDEX INCREASED
FROM 123 TO 126 (1970-100) IN MAY. THE NEW INDEX ITSELF HAS
AGAIN BEEN REVISED SINCE REPORTED
IN A-237. THE DATA FOR 1974 AND 1974 REMAIN
PROVISIONAL

INDUSTRIAL PRODUCTION-REVISED NEW SERIES
SEASONALLY ADJUSTED (1970-100)

JAN FEB MAR APR MAY JUNE JULY-AUG SEPT OCT NOV DEC

1973
117 119 117 116 123 121 123 121 122 123 119

1974
125 126 123 123 126

DATA BACK TO 1963 IN THIS REVISED SERIES
HAVE BECOME AVAILABLE. WE WILL FORWARD SEPARATELY
BY AIRGRAM.
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6. OTHER REPORTS SUBMITTED DURING THE PERIOD -
TELEGRAMS

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PARIS 17160 JULY 15, 1974 VALUE OF TRADE MANUFACTURES
- CERP 1208

PARIS 17268 JULY 16, 1974 SMALL JUNE FRENCH TRADE DEFICIT

PARIS 17318 JULY 16, 1974 FINANCE MINISTRY DENIES REPORTED
PLANS FOR DOLLAR LOANS FROM USSR
TO FRANCE

PARIS 17863 JULY 23, 1974 ECONOMICS MINISTER ON FRENCH
STABILIZATION EFFORT

AIRGRANS

PARIS A-392 JULY 17, 1974 FRENCH EXPORT FINANCING

PARIS A-395 JULY 18, 1974 MTN NONTARIFF DATA BASE EC
SUBSIDY PRACTICES

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PARIS A-400 JULY 19, 1974 FRENCH FOREIGN EXCHANGE HOLDINGS
IRWIN

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